Valuation of Reliance

GROUP 11

DEEPANSHU GARG	2021B3A72758
ARIHANT RAI	2021B3A72507
SHUBHAM BIRLA	2021B3A72965
KINJAL VARDIA	2021B3A72579
PRAKSHAAL VORA	2021B3A72967

"Growth is Life"

This philosophy underscores Reliance's commitment to continuous development and innovation across its diverse business sectors, including energy, petrochemicals, retail, and telecommunications. By embracing this ethos, Reliance strives to create value for its stakeholders and contribute to India's economic progress.

THE LEADERSHIP

- **Chairman and Managing Director:** Mukesh D. Ambani
- **Non-Executive Director**: Nita M. Ambani
- **Executive Director**: Hital R. Meswani, Nikhil R. Meswani, P.M.S. Prasad,: P.K. Kapil
- **Joint Chief Financial Officer**: Srikanth Venkatachari, Alok Agarwal
- **Independent Director**: Adil Zainulbhai, Arundhati Bhattacharya, K.V. Chowdary, Raminder S. Gujral, Shumeet Banerji, H.E. Yasir Othman H. Al Rumayyan

Comprehensive Overview

Reliance Industries Limited (RIL), headquartered in Mumbai, India, is a leading multinational conglomerate with diversified interests across various sectors. Founded by Dhirubhai Ambani in 1966, RIL has evolved into India's largest private-sector company by market capitalization and revenue.

Industry Segments and Operations

- **Energy and Petrochemicals**: Engages in hydrocarbon exploration, production, refining, and marketing. It operates the world's largest refining complex in Jamnagar, Gujarat, with a combined capacity of about 1.4 million barrels per day.
- **Retail**: Through Reliance Retail, it offers a wide range of products, including groceries, electronics, and apparel, making it one of India's largest retail chains.
- **Telecommunications**: Jio Platforms, a subsidiary, provides digital services, including mobile network operations, broadband, and digital apps. Jio has significantly impacted India's telecom sector by offering affordable data services.
- **Media and Entertainment**: Operates in mass media through various channels and platforms, including streaming services and content production.

Products & Services and Revenue Generation

RIL's diverse portfolio includes:

- **Petroleum Products**: Gasoline, diesel, jet fuel, and lubricants.
- **Petrochemicals**: Polymers, polyester, fiber intermediates, and chemicals.
- **Retail Offerings**: Consumer goods, electronics, fashion, and lifestyle products.
- **Telecom Services**: 4G and 5G services, broadband internet, and digital applications.

RIL's revenue streams are diversified:

- **Oil to Chemicals (O2C)**: Historically, the largest contributor, encompassing refining and petrochemical operations.
- **Retail**: A rapidly growing segment, contributing to the company's revenue.
- **Digital Services**: Jio's telecom platforms have become substantial revenue generators.

Reliance Industries limited Competitors

In its various sectors, RIL faces competition from:

- **Energy and Petrochemicals**:

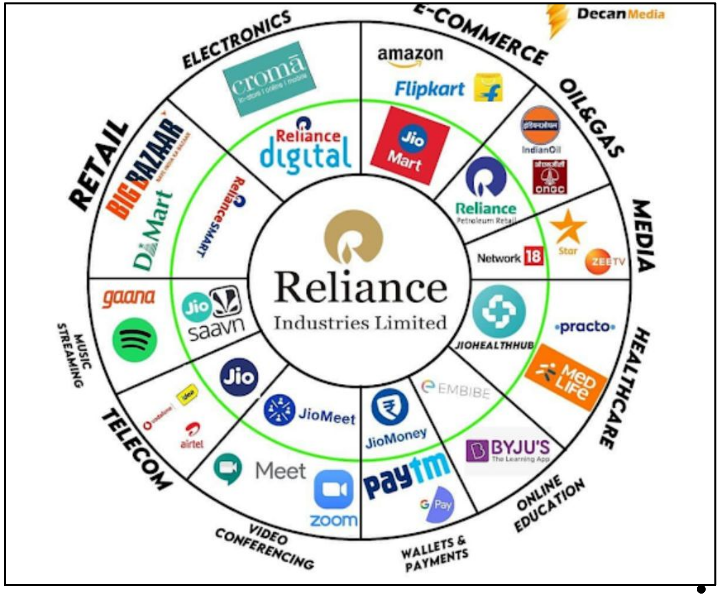
  Indian Oil Corporation, Bharat Petroleum, and international oil companies.

- **Retail**:

  Future Group, Aditya Birla Retail, and e-commerce giants like Amazon and Flipkart.

- **Telecommunications**

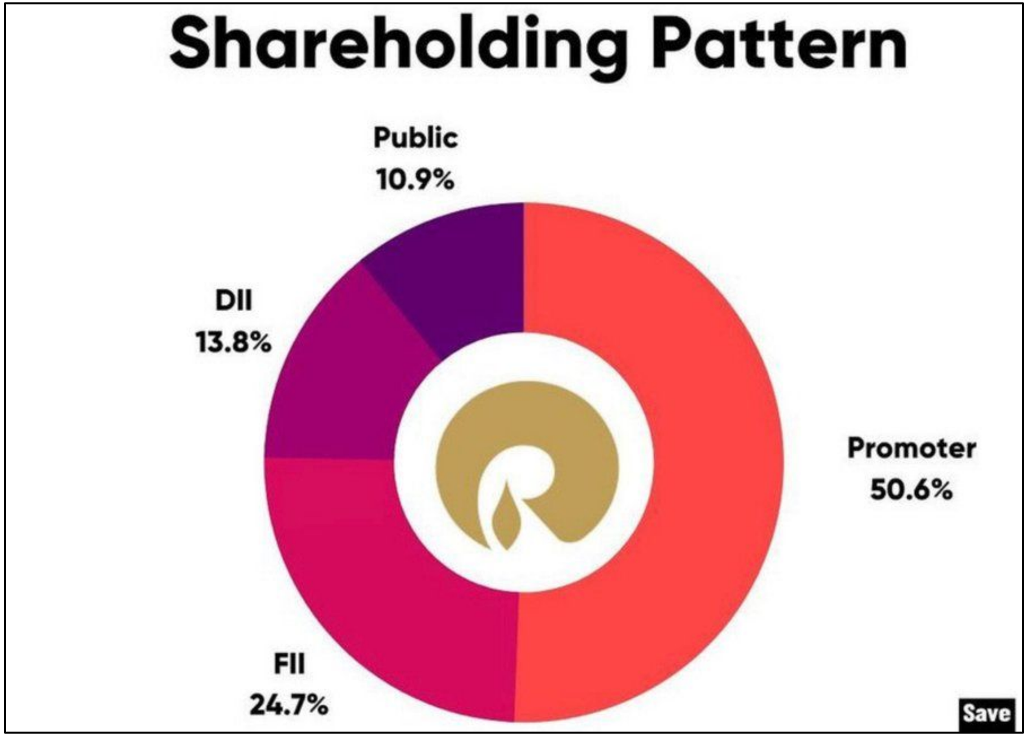
  Bharti Airtel, Vodafone Idea, and state-owned BSNL.



INDUSTRY INSIGHTS

- **Indian Oil and Gas Industry**:
  - India is the third-largest consumer of oil globally, with consumption expected to reach 500 million tonnes by 2040.
  - Government initiatives, such as the Hydrocarbon Exploration and Licensing Policy (HELP) and the Discovered Small Field (DSF) policy, aim to boost domestic production and reduce import dependence.
- **RIL's Strategic Alignment**:
  - Investments in refining capacity and petrochemical production align with the industry's growth trajectory.
  - Expansion in retail and digital services positions RIL to capitalize on India's growing consumer market and digital transformation.

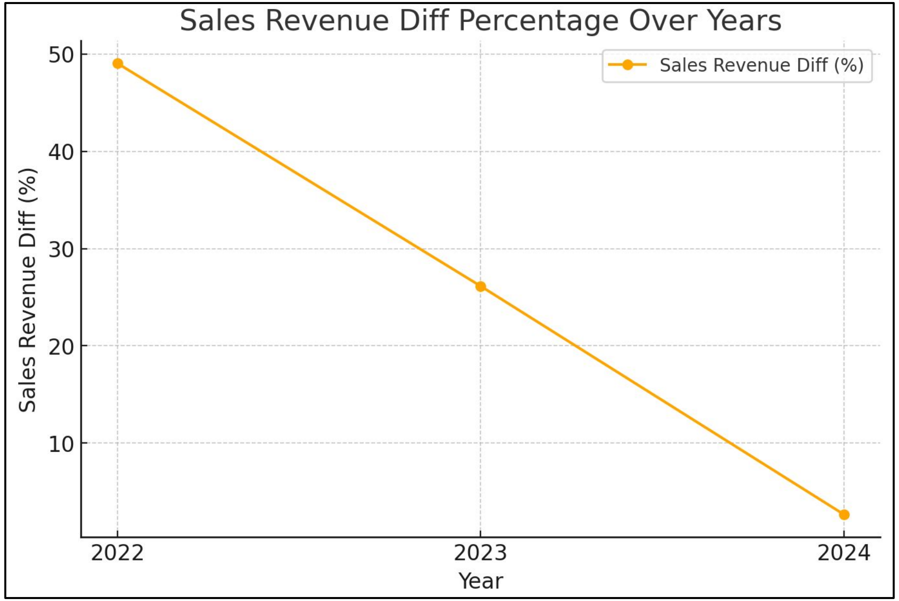
In summary, Reliance Industries Limited's diversified operations across multiple sectors, robust revenue streams, and strategic initiatives position it as a leading conglomerate in India, with significant contributions to the nation's economic growth.


Shareholding Pattern
Public
10.9%
DII
13.8%
Promoter
50.6%
FII
24.7%
Save

OUTLOOK FY23-24

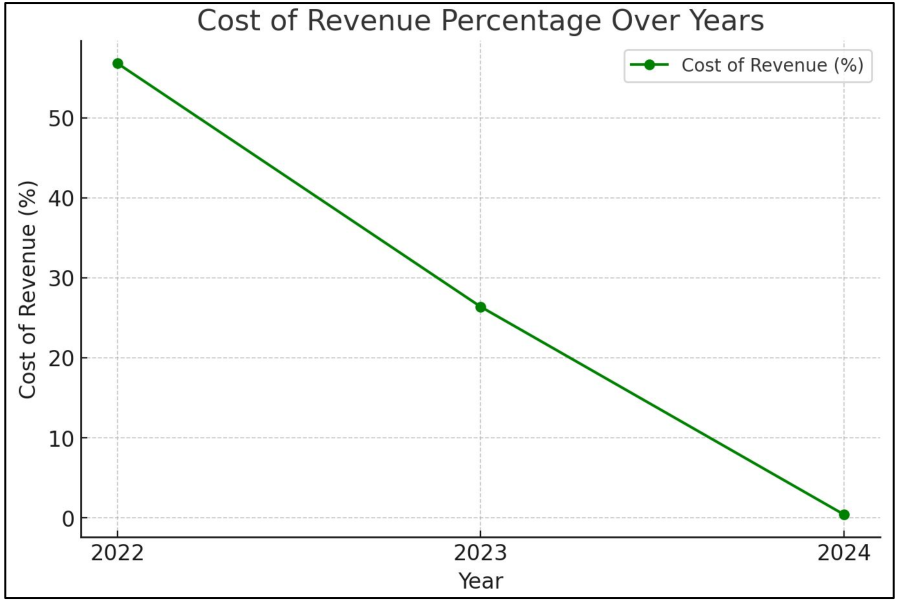
Total Revenue	Revenue growth rate	Total Assets	Working Capital
901064 CR	2.64%	1755986 CR	72733 CR

SALES REVENUE DIFFERENCE



Sales Revenue Difference (%) declines significantly from 2022 to 2024, reflecting a slowdown in revenue growth or stabilization at higher levels of sales.

COST OF REVENUE



The Cost of Revenue consistently decreases,indicating improved cost efficiency and better supplier management or production processes & suggests the company is generating revenue at a lower cost over time, contributing to its profitability.

RATIOS AND INTERPRETATION

Average Net PPE to Total Revenue Ratio for 2024, 2023, and 2022: **0.908**

- PPE to revenue ratio of 0.908 implies that for every dollar of revenue generated, the company has $0.908 invested in net PPE this suggests the business is capital-intensive, meaning it requires significant investment in physical assets (like machinery, buildings, or equipment) to drive sales.
- Depreciation to PPE ratio of 0.0562 means that, on average, the company depreciates 5.62% of its net PPE annually this suggests the company's assets have an estimated average useful life of about 18 years (1 / 0.0562 ≈ 18).

Average Depreciation to Net PPE Ratio for 2024, 2023, and 2022: **0.0562**

Average Sales Growth for 2024, 2023, and 2022: **0.259**

Average Gross Profit Margin for 2024, 2023, and 2022: **0.249**

Average Operating Expense Ratio for 2024, 2023, and 2022: **0.132**

- The Average Sales Growth of 25.9% indicates strong revenue expansion over the period, suggesting the company is growing at a healthy pace. Despite this growth, the Gross Profit Margin of 24.9% reflects relatively low profitability from core operations, possibly due to cost pressures or pricing strategies. The Operating Expense Ratio of 13.2% indicates moderate operational efficiency, leaving room for improvement in controlling costs relative to revenue.

FUTURE CASH FLOW PREDICTIONS

	2025	2026	2027	2028	2029
Sales Revenue	11,34,834.03	14,29,252.84	18,00,054.99	22,67,057.24	28,55,217.51
COGS	8,523.10	10,734.32	13,519.22	17,026.66	21,443.95
Gross Profit	2,82,523.31	3,55,820.53	4,48,133.81	5,64,396.64	7,10,822.45
Operating Expense	1,49,374.93	1,88,128.43	2,36,936.05	2,98,406.21	3,75,824.06
EBITDA	1,33,148.38	1,67,692.09	2,11,197.75	2,65,990.43	3,34,998.39
Depreciation	57,958.66	72,995.33	91,933.08	1,15,783.99	1,45,822.73
EBIT	75,189.71	94,696.76	1,19,264.68	1,50,206.44	1,89,175.66

*CRORES`

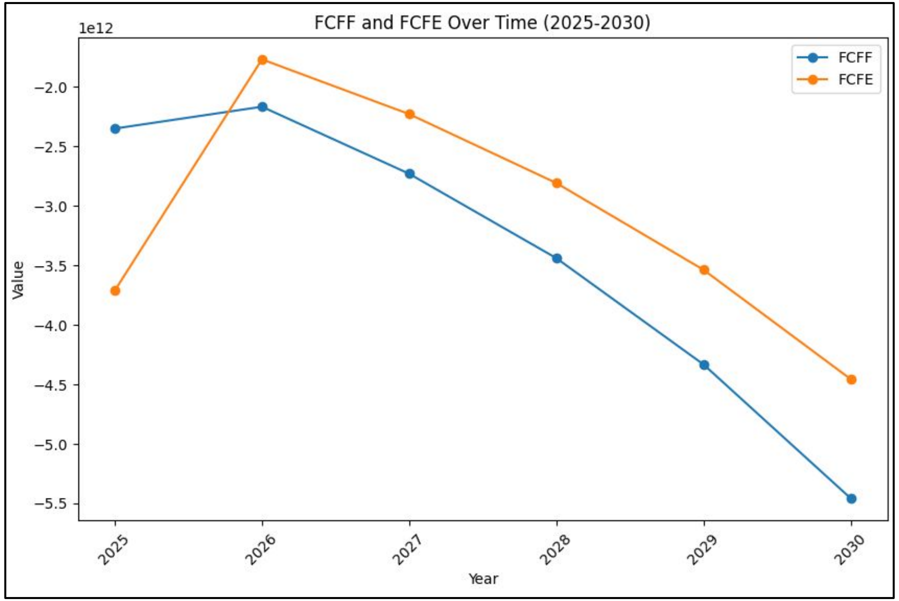
FCFF AND FCFE PREDICTIONS

	2025	2026	2027	2028	2029
FCFF	-23,896.53	-22,157.77	-27,906.34	-35,146.29	-44,264.57
FCFE	-37145.5	-17718.8	-22315.7	-28105.2	-35396.7

*CRORES

Performing a Discounted Cash Flow (DCF) analysis with negative cash flows can indeed be challenging and might not yield meaningful or straightforward valuations.

FCFF & FCFF PROJECTIONS



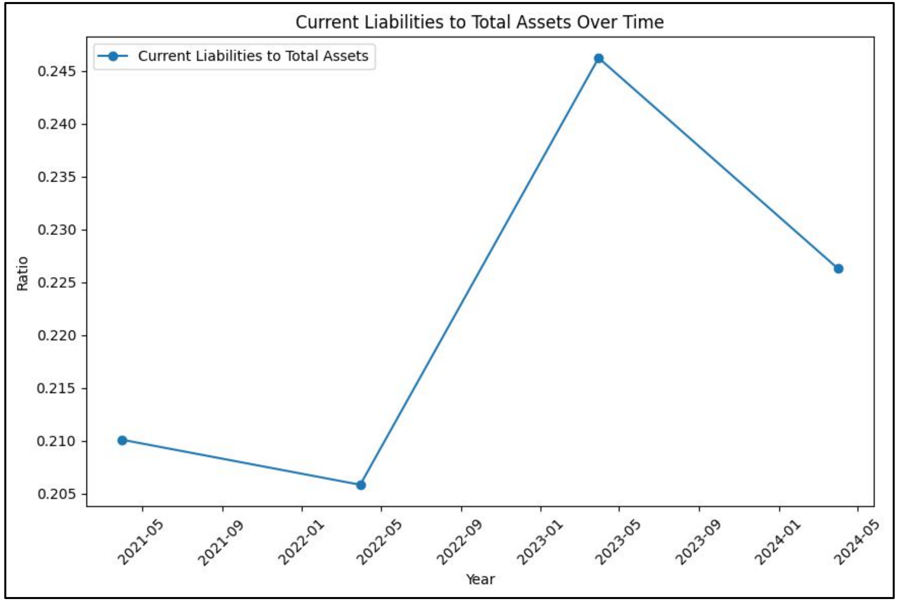
This graph forecasts Free Cash Flow to the Firm (FCFF) and Free Cash Flow to Equity (FCFE) for RIL, showing a downward trend for both. This indicate decreasing cash flows available for both the firm and equity holders in the projected period.

CASH FLOW INTERPRETATIONS

Reliance Industries Limited (RIL) has experienced negative cash flows due to several key factors:

- RIL invested heavily in expanding its telecom and retail sectors, as well as in new energy projects, leading to significant cash outflows.
- The company has undertaken substantial debt repayments, which have reduced its available cash reserves.
- RIL has faced rising operating costs across its diverse business segments, impacting its cash flow.
- Fluctuations in working capital, such as increased receivables or inventory levels, have led to cash flow mismatches.
- Variations in global oil and gas prices have affected RIL's revenue streams, contributing to negative cash flows.

LIABILITIES TO ASSETS



This ratio shows fluctuations in RIL’s current liabilities relative to its total assets over time, peaking around 2023, which indicates a higher reliance on current liabilities that year before it slightly declined.

Metric	Value
Average Asset-to-Debt Ratio	0.197
Cost of Equity	14.83%
Annualized Market Return	14.09%
Beta	1.105
Market Value of Equity	INR 17.23 Trillion
Total Debt (Book Value)	INR 3.46 Trillion
Market Value of Debt	INR 3.08 Trillion
Interest Expense (2024)	INR 0.22 Trillion
Debt-to-Equity Ratio (D/E)	0.178

COST OF DEBT

The risk-free interest rate for a one-year period in the Indian market, as calculated using Treasury bills, is approximately 7%. Considering the credit rating of Reliance Industries, which has been assessed as **A1+** by various credit rating agencies, the corresponding credit spread based on the credit rating system is 0.92%. Therefore, **the cost of debt is determined to be 7.92%.** Furthermore, our calculation of the interest coverage ratio aligns with this assessment, as it falls within the range associated with the same credit rating.

CRISIL
Ratings

Rating Rationale
March 31, 2023 | Mumbai

Reliance Industries Limited
Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.100000 Crore (Enhanced from Rs.65000 Crore)**
Long Term Rating	**CRISIL AAA/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Assigned)**

Rs.2500 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.19000 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.10000 Crore (Reduced from Rs.15000 Crore) Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.10000 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.2000 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.34500 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

ICRA

February 02, 2024

Reliance Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	18,500.00	18,500.00	[ICRA]AAA (Stable); reaffirmed
Non-convertible debentures	6,500	-	[ICRA]AAA (Stable); reaffirmed and withdrawn
Commercial paper	10,000.00	10,000.00	[ICRA]A1+; reaffirmed
Total	35,000.00	28,500.00	

**Instrument details are provided in Annexure-I*

Rationale

Weighted Average Cost of Capital (WACC)	**13.52%**

The company's Weighted Average Cost of Capital (WACC) stands at 13.52%, indicating the minimum return needed to satisfy its capital providers. This relatively efficient cost reflects prudent financial management, balancing debt and equity effectively. The company's low debt-to-equity ratio (0.178) suggests conservative leverage, while a cost of equity of 14.83% paired with a beta of 1.105 points to slightly higher-than-average market risk and potential returns.

GROWTH RATE ANALYSIS

Growth rate using reinvestment rate and ROE capital	
ROE	8.22%
Reinvestment rate	92.14%
Growth rate	7.58%

The analysis shows that the growth rate calculated using the reinvestment rate and ROE (7.58%) is higher than the rate calculated with ROA (3.66%). The consistent cost of capital at 14.83% indicates a high hurdle rate for returns. Both sets of terminal values are negative, suggesting substantial challenges in maintaining positive future cash flows and potential financial strain in the projected period.

Growth rate using relative valuation

AVG EV/EBITDA	5.20290
EBITDA of RELIANCE	334998
FCFF of RELIANCE	-442645
r	14.82%
GROWTH RATE	17.81%

The 17.81% growth rate for RIL reflects its expansion into capital-intensive markets like telecom, retail, and green energy, where it captures market share through innovation and scale. Despite negative cash flows, RIL's massive EBITDA of 334,998Cr and competitive EV/EBITDA multiple (5.2029) highlight strong operational efficiency. The company's history of converting early-stage investments into long-term profitability supports this high growth projection. Additionally, its strategic market dominance in high-growth sectors aligns with this ambitious yet achievable growth rate.

RELATIVE VALUATION

*All values in crores	IOC	BPCL	HPCL
EBITDA	75646	44771.49	23800
MVE	190354	134970	83325.5
MVD	151100	72400	72548.22
SLACK CASH	996.35	1200	1100
EV	340457.65	206170	154773.72
EV/EBITDA	4.500669566	4.604939438	6.503097479

IOC, BPCL, and HPCL were chosen for the relative valuation of Reliance because they operate in the same oil and gas industry

Industry EV/EBITDA	5.202902161
EBITDA of RIL (in crores)	334998
Predicted EV (in crores)	1742963.85

Reliance Industries Limited (RIL) projection of EBITDA is ₹3,34,998 crores. Using the industry average EV/EBITDA of 5.2029, the predicted enterprise value (EV) for RIL is ₹17,42,963.85 crores.

RIL's Long-Term Profit Strategy

Reliance Industries Limited (RIL) employs a strategic approach that involves substantial initial investments and competitive pricing to establish market dominance. This strategy often leads to negative cash flows in the early stages of market entry. However, as RIL secures a significant market share, it adjusts its pricing strategies to enhance profitability.

This pattern suggests that, despite initial projections of losses based on Free Cash Flow to the Firm (FCFF) and Free Cash Flow to Equity (FCFE) calculations, RIL's long-term financial outlook remains positive. The company's history of leveraging its scale and strategic pricing to achieve sustainable profitability supports this perspective.

For instance, in the telecommunications sector, RIL's subsidiary, Jio Platforms, entered the market with aggressive pricing, offering free services to attract a large customer base. This approach led to initial losses but eventually resulted in significant market share and profitability.

Similarly, in the retail sector, RIL has adopted competitive pricing strategies to attract and retain customers, contributing to its position as India's largest retailer and mass-market leader.

This strategic pattern of initial investment and competitive pricing, followed by market dominance and profitability, underscores RIL's ability to navigate capital-intensive industries effectively.

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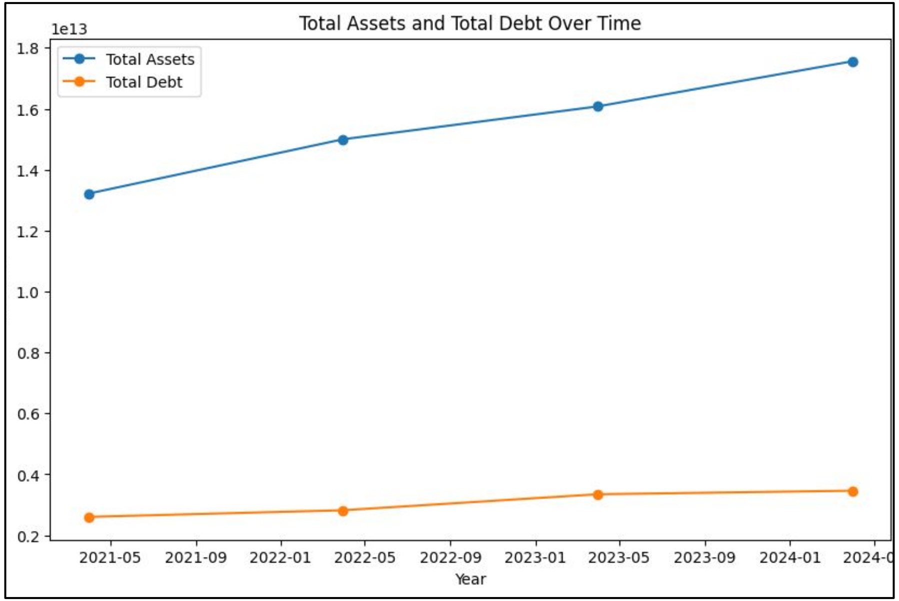
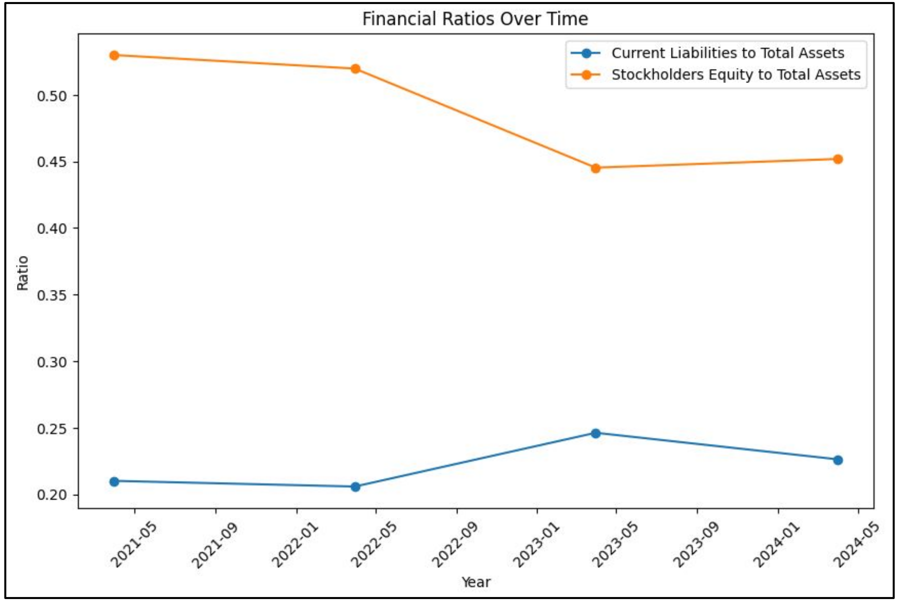
THANK YOU!

ASSET AND DEBT OVER TIME



The significant growth in assets with minimal increase in debt suggests healthy financial management, as the company appears to be expanding without a proportional increase in financial liabilities.

FINANCIAL RATIOS



The chart compares current liabilities and stockholders' equity relative to total assets. Stockholders' equity remains consistently higher than current liabilities, showing RIL's reliance on equity for funding rather than short-term liabilities.